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BSE Code: 532155 NSE Code: GAIL Reuters Code: GAIL.NS Bloomberg Code: GAIL:IN

GAIL (India) Ltd is a major integrated gas company with presence across the natural gas value chain and more than 70% market share in both gas transmission and marketing. It transmits more than 160 mmscmd of gas through its large network of trunk pipelines, covering a distance of ~11,000 km and accounts for about three-fourth of the natural gas transmitted in India. With a market capitalization of over ₹400 billion, GAIL aims to be a ₹1,000 billion turnover company by 2016-17.

Investor's Rationale

LPG subsidy dragged GAIL Q4 net down 38.3%

State-run gas utility, GAIL reported a 38.3% drop in its fourth quarter standalone profit due to higher subsidy burden. Net profit in Q4FY'12 stood at ₹4.8 billion against ₹7.8 billion in the year-ago period. The profits decreased because of a 55% increase in subsidy outgo during the quarter.

Net sales rose 17.6% YoY on the back of higher realizations at petrochemicals and natural gas division

The company recorded a 17.6%YoY increase in its turnover at ₹104.6 billion in Q4FY'12, led by 28% increase in Natural gas trading revenues to ₹91.2 billion that offset the 7%, 8%, and 7% fall in revenues from its gas transmission, LPG transmission, and petrochemical segment to ₹8.5 billion, ₹1.1 billion, and ₹9.6 billion respectively. Further the revenue from its LPG and Liquid hydrocarbon segment declined sharply by 40% to ₹3.2 billion.

Fall in RIL's D6 output pressurises GAIL's domestic output

Natural Gas sales were flat at 85.47 MMSCM, while petrochemical production and Polymer sales were down 16% and 18% to 103 TMT and 118 TMT respectively while LPG transmission was down 3% to 879 TMT. Meanwhile, other Liquid Hydrocarbon sales up by 4% to 351 TMT. Natural Gas transmission decreased by 5% to 115.62 MMSCMD as domestic gas production decreased due to fall in output at Reliance Industries Ltd.'s D6 block, off India's east coast.

Operating margin contracts on retrospective tariffs reduction

During Q4FY'12, GAIL reported an operating profit of ₹7.7 billion, down by 40.4% YoY, while OPM slumped 710bps YoY at 7.3%, on the back of one time provision for retrospective reduction in tariffs on Mumbai and Agartala network. Higher subsidy burden on account of under provisioning in Q3FY12 impacted profitability for the LPG segment.

Market Data

CMP (₹)	331.7
Target Price	371
Stop Loss	318
Duration	Mid-term
52-week High-Low (₹)	476.5/303.1
Rise from 52WL (%)	30.4
Correction from 52WH (%)	9.4
Beta	0.82
1 year Average Volume (mn)	0.1
	3M- (5.2)
Stock Return (%)	6M- (17.6)
	9M- (22.3)
Market Cap (₹bn)	421.0
Enterprise Value (₹bn)	523.5

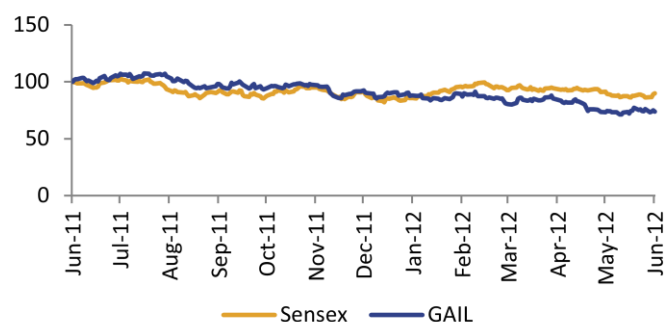
Shareholding Pattern

	Mar'12	Dec'11	Chg
Promoters (%)	57.3	57.3	-
FII (%)	13.3	13.5	(0.2)
DII (%)	25.2	25.2	-
Public & Others (%)	4.2	4.0	0.2

Quarterly Performance

(₹ bn)	Q4 FY'12	Q4 FY'11	Q3 FY'12	%Y-o-Y Change	%Q-o-Q Change
Net sales	104.6	88.9	112.6	17.6	(7.2)
Op. exp	97.2	76.2	95.0	27.5	2.3
EBITDA	7.7	12.9	18.0	(40.4)	(57.2)
OPM	7.3	14.5	15.9	(710bps)	(860bps)
Net profit	4.8	7.8	10.9	(38.3)	(55.7)
NPM (%)	4.5	8.7	9.6	(420bps)	(510bps)
EPS	3.8	6.2	8.6	(38.2)	(55.7)

One Year Price Chart





Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

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